

# Digitalization of Content is Changing the World

## *Advancing the Digital Home Vision through New Digital Entertainment Media*

Consumers today want to enjoy the latest and greatest digital entertainment from the comfort of their living rooms and beyond — on TVs, PCs, stereo systems and mobile devices. They have a growing desire to watch their favorite movies, listen to music, surf the Web, share photos, catch up on sports and play games in every way. They want to enjoy and manage entertainment on their own terms.

The rush toward digital entertainment started with the rise of digital cameras and the consumer desire to digitize, edit and preserve digital photos. Soon thereafter, digital music arrived, leading to a corresponding rise in digital content within the music industry. Foregoing the traditional method of buying albums or CD compilations in stores, a growing number of consumers today pay for music by track and on demand via the Internet. Statistics show that cybermusic is quickly becoming a thriving global business. Legal digital music downloads in the United States and Europe more than tripled in the first half of 2005, compared to the same period in 2004.<sup>1</sup> The boom is attributed to the worldwide growth of high-speed Internet connections and the success of such services as Apple Computer's iTunes.\*

Just as the music industry has been transformed by the advent of digital music and the Internet, a similar transformation is happening in Hollywood, on major TV networks and throughout the sports industry. Consumers are going online to watch TV as a host of media companies create new Web-based video programming — a model that combines all the attractions of broadcast television with the on-demand flexibility of the Internet. Watching soap operas over the Internet is already a pastime in South Korea, where the Seoul Broadcasting Service generates nearly \$400,000 (U.S.) in monthly revenues selling reruns of soap operas and sitcoms online for approximately 40 cents per episode.<sup>2</sup> Furthermore, the Internet opens up creative business opportunities, including “mobisodes,” brief episodes of TV or movie programs created to be downloaded for viewing on cell phones.

Sports enthusiasts are also getting in on the action. MLB.com, the Web site of Major League Baseball, reportedly has signed up half a million fans that pay for live game webcasts. By the end of 2005 MLB.com expects to have as many as 1.3 million subscribers. Alongside this pay-for-service offering, MLB.com streams huge amounts of free video and audio to viewers every day, courtesy of paid advertising. The movie industry, too, is witnessing a major-league shift. Today's film buffs often prefer renting a DVD online or downloading a movie versus making a trip to the multiplex or video store.

In short, everything is going digital. A key catalyst is affordable broadband technology — the high-speed conduit that carries rich media to computers. Surging broadband connections, coupled with high-performance PCs, are leading content providers to realize tremendous revenue opportunities. According to a 2004 Gartner\* report, today there are already more than 300 million broadband subscribers worldwide. Meanwhile, consumers benefit from better quality, more choice and more personalization.

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<sup>1</sup> International Federation of the Phonographic Industry (IFPI), July 2005

<sup>2</sup> Boston Consulting Group, 2005

## **Digital Content Drives New Entertainment Era**

Digital content is rapidly reshaping the way people consume entertainment. It's changing how consumers obtain and watch TV and movies, much as it has changed the way people obtain and listen to music. The digitalization of content is also driving a radical shift in the business models of content and service providers.

To understand the transformative potential of digital content, we could look back at past technologies and media that have revolutionized the way content is consumed and delivered. Consider how color TVs and VCRs reshaped television viewing or how Betamax, VHS tapes and DVDs reshaped the way people watch movies. Also consider how the music industry, the 8-track, cassette tapes, CDs, and most recently MP3 files and portable media players all dramatically changed the way people get and enjoy audio content.

Digital devices and the digitization of content have created another inflection point in today's consumer entertainment. The technologies to enable this model are in place already. The underpinnings include not only broadband but also digital rights management and copyright protection technologies. They also include a new breed of Intel-based entertainment desktop and laptop PCs with built-in high-definition audio and video functionalities that are enabling consumers to experience their entertainment like never before, as well as a myriad of connected, entertainment devices to enjoy content any time and anywhere. The logical next step is to enhance the home entertainment experience by bringing consumers a steady stream of the dynamic digital content they crave and a menu of compelling services that make content available in novel ways.

## **Intel's Content Strategy**

Intel Corporation has taken the initiative to create opportunities for new and exciting forms of digital entertainment on high-performance entertainment PCs and other digital devices. As the convergence of the PC, communications and CE industry continues, Intel's content strategy is to accelerate the availability and adoption of online movies, sports, news, games and TV content to be consumed anytime, anywhere and on any device.

Intel's strategy focuses on leading-edge services that have the potential to transform the traditional ways in which home entertainment is delivered. For example, movies were originally shown only in theaters but then became ubiquitous on VHS and DVD. Today, the delivery method is changing again, moving rapidly to downloading such services as MovieLink.\* Film industry observers predict that in the very near future, consumers will be able to purchase and watch the latest movie at home, the same, or close to the day it opens in theaters. As this model expands across the digital entertainment landscape, Intel's goal is to give consumers the freedom to choose from a broad and innovative array of digital content that is both reasonably priced and protected against piracy and, at the same time, establish business models that make sure content and service providers are paid for their work.

The PC architecture based on industry specifications for interoperability and content protection can enable a constellation of enticing, must-have entertainment experiences not available today via a set-top box or consumer electronics device. For example, imagine a service that makes a million tracks of music available for less than the price of one CD per month. Subscribers to such services could pick any song in the entire library and listen to it on a PC, laptop or portable player, stream the song around a home network or burn a copy to disc — all with copyright protection intact. This model could be applied more broadly, offering consumers unlimited access to music videos or music concerts, along with the ability to personalize the

content by creating custom playlists. In this type of scenario, consumers win in terms of value and a better entertainment experience, and music labels win in terms of consistent monthly revenue and business growth.

## **Forging Global Alliances to Drive New Content Distribution Models**

Intel brings two key benefits to the growing digital content arena: a fresh perspective originating outside the entertainment industry, and more than 35 years of experience in developing the key technology ingredients that have helped define the technology industry. Intel is playing a leadership role in this arena by working with incumbents and new players on several fronts, including development of industry specifications for device interoperability, an ecosystem, and new consumer usage models, and helping to create viable business offerings geared to the new medium.

Intel is forming alliances with companies around the globe to help accelerate online content distribution. For example, in June 2005 Intel teamed up with Yoshimoto Kogyo Co. Ltd., a large Japanese talent agency and leading provider of digital video and audio entertainment content, especially comedy. The two companies are collaborating to expand the availability of entertainment content to Japanese consumers over a broadband infrastructure. Intel and Yoshimoto are also working with Bellrock Media, a content provider that holds the distribution rights for Yoshimoto's comedy and music content online.

In July 2005, Intel forged a second alliance aimed at facilitating digital content distribution. The company joined forces with Revelations Entertainment to form a new digital entertainment company called ClickStar, which will focus on distributing premium movies directly to consumers over the Internet, connecting filmmakers to film fans worldwide. When launched, ClickStar's intriguing online service, coupled with Intel's digital entertainment technology platforms, will give consumers the opportunity to watch first-run movies and premium artist-created content from the comfort of home.

ClickStar is working with top artists, producers and distribution companies worldwide to build a compelling slate of exciting films that will be available in theaters and online. Intel's investment in ClickStar was the result of its long-term alliance with Revelations Entertainment. The two companies share the belief that consumers want to enjoy digital entertainment and that the best way to address piracy is to deliver compelling and better-protected entertainment experiences.

With ClickStar and Bellrock as a model, Intel plans to engage with top media companies worldwide. Intel is also targeting other entertainment categories, including TV, games, music and sports in international regions. TV broadcasters find the idea of broadband content distribution especially appealing. Many major European and U.S. cable networks have expressed interest in offering on-demand, direct-to-consumer content, recognizing an opportunity to generate revenue using an advertising, subscription or pay-per-view model.

## **Addressing Payment, Protection and Piracy**

Intel has been and will continue to work with content providers, consumer electronics vendors, PC manufacturers and others to deliver technologies and solutions that protect intellectual property while balancing the rights of consumers to enjoy legitimate digital content anytime, anywhere and on any device.

Curbing piracy is not a question of technological barriers; it's a matter of establishing a business model that deflates the incentive to steal. Experience shows that consumers who can't get the entertainment content they want will almost certainly find a back channel to access it. Intel is convinced that the answer lies in making content easier to buy than it is to pirate, a philosophy first applied to film by actor Morgan Freeman, a principal of Revelations Entertainment. Applied more broadly, it means proactively providing consumers with good value along with compelling, high-quality content that is easy to access, increasingly available, fairly priced, attractively packaged and transparently protected.

The need to address issues of content protection and fair compensation of content providers will only rise as new business models emerge and digital content continues to reshape consumer entertainment.

Intel's ongoing efforts will be aimed at supporting this trend in ways that are good for businesses across the industry. More important, Intel will focus on initiatives that benefit consumers by giving them more choice and new means by which to access premium content anytime, anywhere and on any device.

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